VIRGINIA MILITARY INSTITUTE

LEXINGTON, VIRGINIA

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 1999

AUDITOR OF

PUBLIC

ACCOUNTS

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of Virginia Military Institute for the year ended June 30, 1999, found:

- the financial statements are presented fairly, in all material respects;
- internal control matters that we consider to be reportable conditions; however, we do not consider any of these to be material weaknesses;
- no instances of noncompliance required to be reported; and
- adequate corrective action of prior audit findings, except for the prior year finding titled “Complete Information Security Program.”

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Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

June 2, 2000

The Honorable James S. Gilmore III
Governor of Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission

The Board of Visitors
Virginia Military Institute

We have audited the accounts and records of **Virginia Military Institute** as of and for the year ended June 30, 1999, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the balance sheet of Virginia Military Institute as of June 30, 1999, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Virginia Military Institute as of June 30, 1999, and the changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying "Schedule of Auxiliary Enterprises Revenues and Expenditures" is presented for the purpose of additional analysis and is not a required part of the financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, such information is fairly presented in all material respects in relation to the financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of Virginia Military Institute as of and for the year ended June 30, 1999, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the Institute's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Institute's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Institute's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the section entitled, "Internal Control Findings and Recommendations."

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Status of Prior Findings

The Institute has not taken adequate corrective action with respect to the previously reported finding "Complete Information Security Program." Accordingly, we included this finding in the section entitled "Internal Control and Compliance Findings and Recommendations." The Institute has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

The “Independent Auditor’s Report on Compliance and on Internal Control Over Financial Reporting” is intended solely for the information and use of the Governor and General Assembly of Virginia, the Board of Visitors and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management on June 28, 2000.

AUDITOR OF PUBLIC ACCOUNTS

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INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

In performing our audit, we reviewed the Institute's implementation of new administrative systems (Colleague). Our review considered the risks associated with the implementation of a new system and the effect it had on our audit. We found weaknesses resulting from design faults and others arising from management decisions made during the implementation of Colleague. We issued our findings on the Institute's new system implementation in an interim report dated March 22, 2000.

Complete Information Security Plan

The Institute completed the administrative systems portion and substantially completed the local area network portion of its information security plan. Next, the Institute should provide the resources to complete the local area network portion and expand the plan to include academic computing. In addition, operating departments should develop contingency management and disaster recovery plans to address how they would continue to provide essential services in the event of the loss of computing support.

Improve Management of Surplus Property

The Institute does not sufficiently track, record, and dispose of its surplus property. We found that the Institute frequently stores unneeded, obsolete, or broken items in an unorganized manner in storage for extended periods of time before turning the items over to General Services. Further, the Institute does not maintain a complete and accurate listing of the items in storage due to departments not properly notifying the Surplus Property Officer of items sent to storage. Institute procedures require departments to submit a disposition of equipment form to the Property Control Officer before sending items to storage. The comptroller's office uses the approved disposition of equipment form to remove the item from the fixed asset records. However, we found several items in storage that remain on the fixed asset records.

The Institute should review its surplus property procedures, provide training to departments on these procedures, and take steps to ensure that employees follow these procedures. The Institute should store its surplus property in an organized manner and keep a complete and accurate listing of items in storage to improve the tracking and recording process. Finally, the Institute should promptly submit surplus property to the Department of General Services.

FINANCIAL STATEMENTS

VIRGINIA MILITARY INSTITUTE
BALANCE SHEET
As of June 30, 1999
(With Comparative Figures for 1998)

A S S E T S	1999	1998
Current Funds:		
Unrestricted:		
Cash and cash equivalents (Note 3)	$ 3,359,311	$ 849,530
Investments (Note 3)	67,016	64,496
Investments, securities lending (Note 5)	83,479	49,893
Accounts receivable (Net of allowance for doubtful accounts of $30,940 in 1999 and $30,935 in 1998)	262,672	187,927
Appropriations available	-	11,209
Notes receivable	210,000	210,000
Accrued interest receivable	7,824	12,140
Inventories	2,159,563	1,998,061
Prepaid expenditures	394,016	391,645
Due from the Commonwealth of Virginia	59,873	-
Due from other funds	-	44,185
Total unrestricted	6,603,754	3,819,086
Restricted:		
Cash and cash equivalents (Note 3)	681,652	425,258
Accounts receivable (Net of allowance for doubtful accounts of $0 in 1999 and $16 in 1998)	13,082	17,383
Accrued interest receivable	54,911	51,359
Appropriations available	-	1,843
Notes receivable	50,000	79,000
Due from other funds	-	7,630
Total restricted	799,645	582,473
Total current funds	$ 7,403,399	$ 4,401,559
Loan funds:		
Cash and cash equivalents (Note 3)	$ 76,103	$ 111,941
Investments (Note 3)	206,020	186,862
Loans receivable (Net of allowance for doubtful loans of $193,631 in 1999 and$163,466 in 1998)	1,052,592	942,436
Accrued interest receivable	701	573
Total loan funds	$ 1,335,416	$ 1,241,812
Endowment funds:		
Investments (Note 3)	18,309,908	17,317,124
Total endowment funds	$ 18,309,908	$ 17,317,124
Plant funds:		
Unexpended plant funds:		
Cash and cash equivalents (Note 3)	$ -	$ 60,789
Total unexpended plant funds	-	60,789
Renewals and replacements:		
Cash and cash equivalents (Note 3)	9,146,338	(937,362)
Appropriations available	28,214	2,480,922
Investments with the Treasurer of Virginia (Note 3)	494,748	-
Account receivable	145	-
Total renewals and replacements	9,669,445	1,543,560

LIABILITIES AND FUND BALANCES	1999	1998
Current Funds:		
Unrestricted:		
Accounts payable and accrued liabilities (Note 6)	$ 2,662,296	$ 2,528,805
Deferred revenue	703,146	694,124
Compensated absences	1,036,421	1,081,564
Obligations under securities lending transactions (Note 5)	83,479	49,893
Due to the Commonwealth-Petty cash advance	-	10,000
Due to other funds	-	7,667
Fund balance	2,118,412	(552,967)
Total unrestricted	6,603,754	3,819,086
Restricted:		
Accounts payable and accrued liabilities	60,962	48,164
Due to other funds	-	28,187
Fund balance	738,683	506,122
Total restricted	799,645	582,473
Total current funds	$ 7,403,399	$ 4,401,559
Loan funds:		
Fund balances:		
U.S. Government grants refundable	$ 1,051,018	$ 973,970
Institutional funds:		
Restricted	308,048	281,029
Matching	(23,650)	(13,187)
Total loan funds	$ 1,335,416	$ 1,241,812
Endowment funds:		
Fund balances:		
Endowment	1,263,307	$ 1,262,876
Quasi-endowment - unrestricted	2,001,797	2,545,376
Quasi-endowment - restricted	15,044,804	13,508,872
Total endowment funds	$ 18,309,908	$17,317,124
Plant funds:		
Unexpended plant funds:		
Fund balance - unrestricted	$ -	$ 36,400
Fund balance - restricted	-	24,389
Total unexpended plant funds	-	60,789
Renewals and replacements:		
Accounts payable	53,862	654,687
Notes payable (Note 6)	492,081	-
Retainage payable (Note 10)	10,574	16,757
Accrued liabilities	18,091	-
Compensated absences	32,406	34,106
Fund balance - restricted	9,062,431	838,010
Total renewals and replacements	9,669,445	1,543,560

VIRGINIA MILITARY INSTITUTE
BALANCE SHEET
As of June 30, 1999
(With Comparative Figures for 1998)

A S S E T S	1999	1998
Retirement of indebtedness:		
Accounts receivable	21,233	14,834
Total retirement of indebtedness	21,233	14,834
Investment in plant:		
Land	1,227,806	1,227,806
Land improvements	2,039,189	2,039,190
Buildings	72,314,361	71,182,735
Equipment	8,240,925	7,147,785
Library books	8,699,638	8,479,125
Construction in progress	3,502,678	2,112,661
Equity in equipment trust fund	-	62,698
Total investment in plant	96,024,597	92,252,000
Total plant funds	$ 105,715,275	$ 93,871,183
Agency funds:		
Cash and cash equivalents (Note 3)	$ 29,341	$ 72,643
Accounts receivable	2,859	4,983
Due from other funds	-	37
Total agency funds	$ 32,200	$ 77,663

The accompanying notes to financial statements are an integral part of this statement.

LIABILITIES AND FUND BALANCES	1999	1998
Retirement of indebtedness:		
Accrued interest	21,233	21,779
Fund balance	-	(6,945)
Total retirement of indebtedness	21,233	14,834
Investment in plant:		
Bonds payable (Note 6)	1,171,878	1,527,284
Notes payable (Note 6)	1,937,919	-
Installment purchase obligation (Note 6)	39,881	51,343
Capital leases payable (Note 7)	824,304	1,103,134
Due to other funds	-	15,998
Net investment in plant - unrestricted	92,050,615	89,554,241
Total investment in plant	96,024,597	92,252,000
Total plant funds	$ 105,715,275	$93,871,183
Agency funds:		
Accounts payable and accrued liabilities	2,522	$ 1,468
Deposits held in custody for others	29,678	76,195
Total agency funds	$ 32,200	$ 77,663

VIRGINIA MILITARY INSTITUTE
STATEMENT OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 1999

	Current Funds		Loan	Endowment and
	Unrestricted	Restricted	Funds	Similar Funds
Revenues and other additions:				
Unrestricted current fund revenues	$ 35,652,931	$ -	$ -	$ -
State appropriations-restricted	-	522,433	-	-
Federal grants and contracts-restricted	-	3,183,993	-	-
State grants and contracts-restricted	-	31,748	-	-
Private gifts, grants, and contracts-restricted	-	5,412,013	-	22,500
Sales and services of educational departments - restricted	-	15,556	-	-
Investment income-restricted	-	161,280	-	-
Endowment income-restricted	-	725,893	8,628	-
Interest on loans receivable	-	-	17,956	-
Realized gains on investment - restricted	-	-	19,158	1,845,853
U.S. government advances	-	-	59,093	-
Expended for plant facilities (including $1,155,530 charged to current fund expenditures)	-	-	-	-
Retirement of indebtedness	-	-	-	-
Other sources	-	6,999	-	-
Total revenues and other additions	35,652,931	10,059,915	104,835	1,868,353
Expenditures and other deductions:				
Educational and general	19,966,607	9,534,681	-	-
Auxiliary enterprises	10,390,206	4,842	-	-
Unique military activities	3,703,643	-	-	-
Indirect cost recovered	-	21,107	-	-
Loan cancellations and write-offs	-	-	30,164	-
Administrative and collection costs	-	-	764	-
Refunded to grantors	-	-	-	-
Expended for plant facilities (including noncapitalized expenditures of $702,239)	-	-	-	-
Retirement of indebtedness	-	-	-	-
Interest on indebtedness	-	-	-	-
Disposal of plant facilities	-	-	-	-
Reversion to the Commonwealth	26,183	1,843	-	-
Total expenditures and other deductions	34,086,639	9,562,473	30,928	-
Transfers among funds-additions (deductions):				
Mandatory:				
Debt service	(22,690)	-	-	-
Loan fund matching grant	(19,697)	-	19,697	-
Nonmandatory transfers	1,147,474	(264,881)	-	(875,569)
Total transfers among funds	1,105,087	(264,881)	19,697	(875,569)
Net increase (decrease) for the year	2,671,379	232,561	93,604	992,784
Fund balances (deficits) at beginning of year	(552,967)	506,122	1,241,812	17,317,124
Fund balances at end of year	$ 2,118,412	$ 738,683	$ 1,335,416	$ 18,309,908

The accompanying notes to financial statements are an integral part of this statement.

Plant Funds			
Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
$ -	$ -	$ -	$ -
-	10,620,496	292,371	-
-	-	-	-
-	-	-	-
-	-	474,746	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	4,274,845
-	-	-	647,655
-	39,481	-	-
-	10,659,977	767,117	4,922,500
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	25,053	-	-
24,389	-	-	-
-	3,821,554	-	-
-	-	647,655	-
-	4,947	171,396	-
-	-	-	488,207
-	515,108	-	-
24,389	4,366,662	819,051	488,207
-	-	22,690	-
-	-	-	-
(36,400)	1,931,106	36,189	(1,937,919)
(36,400)	1,931,106	58,879	(1,937,919)
(60,789)	8,224,421	6,945	2,496,374
60,789	838,010	(6,945)	89,554,241
$ -	$ 9,062,431	$ -	$ 92,050,615

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VIRGINIA MILITARY INSTITUTE
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES
For the Year Ended June 30, 1999
(With Comparative Figures for 1998)

	1999			1998
	Unrestricted	Restricted	Total	Total
Revenues:				
Student tuition and fees	$ 9,469,620	$ -	$ 9,469,620	$ 8,679,507
State appropriations: (Note 9)				
Educational and general	9,917,612	522,430	10,440,042	8,969,761
Unique military activities	2,816,342	-	2,816,342	2,670,372
Federal grants and contracts	-	3,150,107	3,150,107	3,138,446
State grants and contracts	-	21,626	21,626	69,491
Private gifts, grants, and contracts	2,312,012	5,423,252	7,735,264	5,737,915
Investment income	55,336	1,893	57,229	31,732
Endowment income	120,640	415,528	536,168	400,234
Sales and services of educational departments	24,979	4,687	29,666	220,833
Sales and services of auxiliary enterprises	9,332,949	-	9,332,949	8,298,815
Sales and services of unique military activities	845,071	-	845,071	750,391
Other sources:				
Concessions, rents and commissions	242,572	-	242,572	201,008
Museum programs sales and services	325,413	-	325,413	220,336
Miscellaneous	190,385	-	190,385	163,302
Total current revenues	35,652,931	9,539,523	45,192,454	39,552,143
Expenditures and mandatory transfers:				
Educational and general:				
Instruction	9,204,563	614,950	9,819,513	9,602,409
Research	44,649	73,187	117,836	63,699
Public service	1,025,599	18,643	1,044,242	806,640
Academic support	2,626,623	331,372	2,957,995	3,222,840
Student services	1,366,213	448,113	1,814,326	1,682,138
Institutional support	3,353,913	60,346	3,414,259	3,880,092
Operation and maintenance of plant	2,061,601	35,782	2,097,383	2,292,764
Scholarships, fellowships, and grants	283,446	7,952,288	8,235,734	7,249,728
Educational and general expenditures	19,966,607	9,534,681	29,501,288	28,800,310
Mandatory transfers for:				
Debt service	22,690	-	22,690	22,690
Loan fund matching grant	19,697	-	19,697	22,543
Total educational and general	20,008,994	9,534,681	29,543,675	28,845,543
Auxiliary enterprises:				
Expenditures	10,390,206	4,842	10,395,048	9,787,476
Unique military activities:				
Expenditures	3,703,643	-	3,703,643	3,184,703
Total expenditures and mandatory transfers	34,102,843	9,539,523	43,642,366	41,817,722
Other transfers and additions (deductions):				
Nonmandatory transfers	1,147,474	(264,881)	882,593	1,886,470
Reversion to the Commonwealth	26,183	1,843	28,026	-
Excess of restricted receipts over transfers to revenue	-	499,285	499,285	84,688
Net increase in fund balance	$ 2,671,379	$ 232,561	$ 2,903,940	$ (294,421)

The accompanying notes to financial statements are an integral part of this statement.

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NOTES TO FINANCIAL STATEMENTS

VIRGINIA MILITARY INSTITUTE

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Virginia Military Institute have been prepared in accordance with generally accepted accounting principles for colleges and universities. The significant accounting policies followed by the Institute are as follows:

A. Reporting Entity

The mission of Virginia Military Institute is to educate young men and women for a wide variety of careers and to prepare them to serve as officers in the armed forces.

A separate report is prepared for the Commonwealth of Virginia that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Institute is a component unit of the Commonwealth of Virginia and is included in the general purpose financial statements of the Commonwealth.

B. Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting under which revenues are recorded when earned and expenses are recorded at the time liabilities are incurred through the receipt of goods and services.

C. Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources, the accounts are maintained in accordance with the principles of "fund accounting." Resources are classified for accounting and reporting purposes into funds that may be used for activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the Board of Visitors. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the governing board retains full control and use in achieving any of its institutional purposes, subject only to the prescribed policies governing the use of state appropriations.

Unrestricted revenue is accounted for in the Current Unrestricted Fund. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Restricted Current funds are reported as revenues and expenditures when expended for current operating purposes.

A summary of fund group definitions is as follows:

Current Funds - Current fund balances are separated into those, which are restricted by donors and those, which are unrestricted. Restricted funds may only be expended for the purpose indicated by the donor or grantor; whereas, unrestricted funds are available for current operations at the discretion of the Institute.

Loan Funds - Loan funds represent funds, which are limited by the terms of their donors or by action of the Board of Visitors for the purpose of making loans to students.

Endowment and Similar Funds - Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. While quasi-endowment funds have been established by the Board of Visitors for the same purposes as endowment funds, any portion of quasi-endowment funds may be expended.

Plant Funds - Plant funds are divided into four groups: unexpended plant, renewals and replacements, retirement of indebtedness, and net investment in plant. Unexpended plant funds represent funds that were specified by external sources or designated by the Board of Visitors for the acquisition or construction of physical properties. Renewals and replacements plant funds represent funds that are specified by external sources or designated by the Board of Visitors for the renovation and replacement of physical properties. The retirement of indebtedness fund includes resources held for the retirement of both principal and interest on debt sinking funds established under bond indentures. Net investment in plant represents the capitalized value of physical property owned by the Institute less any associated long-term debt.

Agency Funds - Agency funds reflect funds held by the Institute as custodian or fiscal agent for others.

D. Investments

Investments are recorded at fair value in accordance with GASB 31 of the Governmental Accounting Standards Board (GASB). Gains and losses arising from the sale, collection, or other disposition of investments and other non-cash assets are accounted for in the fund that owned such assets. Income derived from investments is accounted for in the fund owning such assets, except for income derived from investments of endowment funds, which income is accounted for in the fund to which it is restricted or, if unrestricted, as revenue in unrestricted current funds.

E. Inventory

Inventories are valued at cost using the first-in, first-out method.

F. Compensated Absences

Non-faculty salaried employees' attendance and leave regulations make provision for the granting of a specified number of days of leave with pay each year. Faculty employees do not earn leave. The amount of leave earned but not taken as of June 30, 1999 and 1998, is recorded on the balance sheet. The liability reflects all earned vacation, compensatory, and overtime leave not taken as well as the amount payable under the Commonwealth of Virginia's sick leave pay-out policy upon termination, which is the lesser of 25 percent of sick leave not taken or $5,000 per employee with five or more years of service. Also included is an estimation of sick leave for those employees who, while not currently vested, will probably attain the five years of service required to vest. The last element reflected in this liability is Social Security and Medicaid taxes to be paid by the Institute on all accrued compensated absences.

G. Investment in Plant

Buildings and equipment are stated at appraised value or actual cost where determinable. Land is stated at cost. Construction is capitalized as expended and reflected in net investment in plant. Current fund expenditures of $10,000 or greater for renewals and replacements are capitalized only to the extent that such expenditures represent long-term improvements to properties. Current fund expenditures for equipment are capitalized when the unit acquisition cost is $5,000 or greater and the estimated useful life is two years or more. Library acquisitions are capitalized using published average prices for library acquisitions. The accompanying financial statements include no provision for depreciation of plant assets.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment and library books, (2) mandatory transfers, in the case of required provisions for debt amortization and interest, and equipment renewal and replacement, and (3) transfers of a non-mandatory nature for all other cases. Plant assets, at the time of disposal, revert to the Commonwealth of Virginia for disposition. Proceeds, if any, may be returned to the Institute.

H. Deferred Revenue

Deferred revenue represents revenues collected, but not earned, as of June 30, 1999 and 1998. This is primarily composed of revenue for student tuition and fees accrued in advance of the next semester or term.

2. AFFILIATED ORGANIZATION

The financial statements do not include the assets, liabilities, and fund balance of the Virginia Military Institute Research Laboratories, Incorporated (Research Laboratory). The Research Laboratory, a private, non-profit Virginia corporation, was established to encourage and promote scientific investigations and other types of research by the faculty, staff, and students. The Research Laboratory was audited by other auditors whose report was furnished to the Institute. Amounts summarized below are based solely upon the report of the other auditor.

Following is a condensed summary of the financial position of the Research Laboratory, as of June 30:

	1999	1998
Assets	$ 261,839	$ 230,063
Liabilities and fund balance:		
Liabilities	112,156	93,679
Fund balance	149,683	136,384
Total liabilities and fund balance	$ 261,839	$ 230,063

The cash receipts and disbursements of the Research Laboratory were $413,917 and $400,618 respectively, for the year ended June 30 1999, and $402,040 and $380,333 respectively, for the year ended June 30, 1998.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

All state funds of the Institute are held by the Treasurer of Virginia pursuant to Section 2.1-177, et seq., Code of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Cash and cash equivalents represents cash with the Treasurer, cash in banks, and cash deposits and short-term investments with original maturities of three months or less. Cash deposits held by the Institute are maintained in accounts that are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.1-359 of the Code of Virginia.

The Institute invested bond proceeds in the State Non-Arbitrage Program (SNAP) held by the Treasurer of Virginia. These proceeds are invested in money market funds and shown below as non-categorized in accordance with GASB 3. At June 30, 1999, the State Treasurer held $494,748 in the SNAP program for the Institute.

The VMI Investment Committee is responsible for the management of the endowment and similar funds, loan funds of the Institute, and investments of certain other entities affiliated with the Institute. The Institute's investments, including cash equivalents, are categorized to give an indication of the level of credit risk assumed by the Institute. Credit risk is the risk that that the Institute may not be able to obtain possession of its investment or collateral at maturity. Investments, including cash equivalents are categorized as described below to give an indication of the level of credit risk assumed by the Institute at June 30, 1999 and 1998:

- Category 1 – Insured or registered securities or securities held by the Institute or its agent in the Institute's name.

- Category 2 – Uninsured or unregistered, with securities held by the counter party's trust department or agent in the Institute's name.

- Category 3 – Uninsured or unregistered with securities held by the counter party, or by its trust department or agent, but not in the Institute's name.

- Non-categorized – Money market or equity in pooled investments.

	June 30, 1999	June 30, 1998
	Fair Value	Fair Value
Cash and cash equivalents:		
Cash on hand	$ 6,180	$ 6,240
Cash in banks	607,689	50,156
Cash with the Treasurer of Virginia	12,435,875	424,760
Repurchase agreement (Category 3)	243,001	101,643
Total cash and cash equivalents	$ 13,292,745	$ 582,799
Investments:		
Common stock (Category 2)	$ 14,214,787	$ 13,949,544
US Treasury and Agency securities (Category 2)	1,830,483	2,238,806
Corporate notes (Category 2)	1,144,177	1,236,246
Non-categorized	1,888,245	143,886
Total investments	$ 19,077,692	$ 17,568,482

	June 30, 1999		June 30, 1998	
	Cash and cash Equivalents	Investments	Cash and cash Equivalents	Investments
Current funds:				
Unrestricted	$ 3,359,311	$ 67,016	$ 849,530	$ 64,496
Restricted	681,652	-	425,258	-
Loan funds	76,103	206,020	111,941	186,862
Endowment funds	-	18,309,908	-	17,317,124
Plant funds:				
Unexpended	-	-	60,789	-
Renewals and replacements	9,146,338	494,748	(937,362)	-
Agency funds	29,341	-	72,643	-
Total	$ 13,292,745	$ 19,077,692	$ 582,799	$ 17,568,482

4. FUNDS HELD IN TRUST BY OTHERS

Assets of funds held by trustees for the benefit of the Institute are not reflected in the accompanying balance sheet. The Institute has irrevocable rights to all or a portion of the income of these funds. However, assets of the funds are not under the management discretion of the Institute according to the trust agreements. Income from funds held by trustees for the benefit of the Institute totaled $164,580 and $58,279 for the years ended June 30, 1999 and 1998, respectively, and is included in restricted endowment income.

5. SECURITIES LENDING TRANSACTIONS

The investments under securities lending represent the Institute's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

6. LONG-TERM INDEBTEDNESS

Bonds Payable	1999	1998
Higher Education Institutional Refunding Bonds, 1992 Series R, issued $3,119,262, balance payable in annual installments, varying from $281,498 to $409,489 with interest at 5 percent to 5.6 percent payable semi-annually, the final installment of $409,489 due in 2002. The principal and interest is to be repaid by the VMI Development Board and the VMI Foundation on a year-to-year basis as a gift to the Institute. Should the gift be discontinued, repayment will be made by charging an additional comprehensive cadet fee.	$ 1,171,878	$ 1,527,284

Notes Payable	1999	1998
Loan agreement with the Virginia College Building Authority to finance the installation of a computer network in the barracks that represents the Institute's share of revenue bonds issued by the Authority under its pooled bond program. The note is payable in annual installments, varying from $205,000 to $285,000, with final payment on December 1, 2008 with interest payable semi-annually at 3.7 percent to 4.1 percent. The principal and interest will be paid by the VMI Foundation, Inc. on a year-to-year basis as a gift to the Institute. Should the gift be discontinued, repayment will be made by charging cadets a debt service fee.	$ 2,430,000	$ -

Maturities of long-term debt for each of the five years succeeding June 30, 1999, are as follows:

Year	Bonds Payable	Notes Payable
2000	$ 369,703	$ 205,000
2001	392,685	215,000
2002	409,490	220,000
2003	-	230,000
2004	-	235,000
Subsequent years	-	1,325,000
Total	$ 1,171,878	$ 2,430,000

Other Long-term Debt

The $2,662,296 in Current Unrestricted Funds accounts payable and accrued liabilities includes $148,888 for a contractual obligation to be paid in three annual installments with the final installment due in 2002. Maturities for each of the three years succeeding June 30 1999, are as follows:

Year	Amount
2000	$ 55,833
2001	55,833
2002	37,222
Total	$ 148,888

Installment Purchase Obligations

The Institute has future obligations under installment purchase agreements with the final installment due in 2003. The book value of the assets capitalized under these installment purchase agreements is $61,763, with interest ranging from 5.67 percent to 8.5 percent. A summary of future obligations under these agreements as of June 30, 1999, follows:

Year Ending June 30	Principal	Interest	Total
2000	$ 12,212	$ 2,260	$ 14,472
2001	13,014	1,458	14,472
2002	12,110	606	12,716
2003	2,545	81	2,626
Total	$ 39,881	$ 4,405	$ 44,286

7. CAPITAL LEASES PAYABLE

The Institute is the lessee of equipment under capital leases expiring in various years through 2003. The assets under capital leases are recorded as property, plant, and equipment at the lower of the net present value of the minimum lease payments during the lease term, or the fair market value of the asset.

The Institute receives allocations made by the Virginia College Building Authority from the Higher Education Equipment Trust Fund for the purpose of acquiring equipment under leasing agreements with the Authority through September 30, 1999. Fixed assets acquired under these lease agreements and the associated liability are recorded in the Net Investment in Plant Fund.

For all capital leases, the minimum lease payments together with the present value of the net minimum lease payments as of June 30, 1999, are as follows:

Year Ending June 30	Equipment Trust Fund	Other Capital Leases	Total
2000	$ 282,793	$ 20,016	$ 302,809
2001	293,238	12,448	305,686
2002	221,208	110	221,318
2003	82,063	-	82,063
Total minimum lease payments	879,302	32,574	911,876
Less: Executory costs	-	9,064	9,064
Interest	74,380	4,128	78,508
Present value of net minimum lease payments	$ 804,922	$ 19,382	$ 824,304

Interest rates on capitalized leases vary from 3.95 percent to 8.5 percent.

8. COMMITMENTS

Operating Leases

The Institute is committed under various operating leases for equipment. Operating leases do not give rise to property rights or lease obligations and, therefore, the results of the lease agreements are not reflected in the Institute's fund groups. In general, the leases are for a three-year term and the Institute has renewal options. In most cases, the Institute expects these leases will be replaced by similar leases in the normal course of business. Rental expense was approximately $142,345 and $122,784 for the years ended June 30, 1999 and 1998, respectively.

Year Ending June 30	Amount
2000	$ 102,523
2001	51,437
2002	3,620
Total	$ 157,580

9. STATE APPROPRIATIONS – CURRENT UNRESTRICTED FUNDS

The Institute receives state appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of the biennium. For years ending at the middle of a biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the Institute for disbursements.

The following is a summary of state appropriations received by the Institute during the year ended June 30, 1999, including all supplemental appropriations.

	Educational and General	Unique Military Activities
Original appropriation	$ 9,265,276	$ 3,835,942
Adjustments:		
Classified and job class re-grades	70,285	-
Fringe benefit adjustment	1,618	-
Century Date Change Initiative	710,628	-
George C. Marshall Foundation	100,000	-
Appropriation transfers:		
Virginia Tech	-	(1,006,300)
Mary Baldwin	-	(13,300)
Equipment Trust Fund lease payment	(230,195)	-
Total adjustments	652,336	(1,019,600)
Adjusted appropriations	$ 9,917,612	$ 2,816,342

Adjusted appropriations for the year ended June 30, 1998, were $8,479,051 and $2,670,372 for Educational and General and Unique Military Activities, respectively.

10. RETAINAGE PAYABLE

The Institute held $10,574 and $16,757 at June 30, 1999 and 1998, respectively, as retainage on various contracts for work that had been performed. The retainage will be remitted to the various contractors upon satisfactory completion of the projects.

11. PENSION PLAN AND OTHER POST RETIREMENT BENEFITS

Virginia Retirement System

Employees of the Institute are employees of the Commonwealth of Virginia. The employees participate in a defined benefit retirement plan administered by the Virginia Retirement System (VRS). The VRS also administers life insurance and health related plans for retired employees. Information related to these plans is available at the statewide level only in the Commonwealth's Comprehensive Annual Financial Report (CAFR). The Commonwealth of Virginia, not the Institute, has the overall responsibility for contributions to these plans.

Optional Retirement Plan

Full-time faculty, certain administrative staff, who hold academic rank, and athletic coaches are eligible to participate in a defined contribution plan administered by four different providers rather than VRS. The four different providers are TIAA/CREF Insurance Companies, Fidelity Investments, T. Rowe Price, and VALIC. This plan is a fixed contribution plan where the retirement benefits are based upon the employer's (10.4 percent) contributions, plus interest and dividends for the years ended June 30, 1999 and 1998.

Individual contracts issued under the plan provide for full and immediate vesting of both the Institute's and the employees' contributions. Total pension costs under this plan were approximately $415,697 and $369,712 for the years ended June 30, 1999 and 1998, respectively. Contributions to the optional retirement plan were calculated using the base salary amount of $3,997,099 and $3,554,924 for the years ended June 30, 1999 and 1998, respectively.

12. SURETY BOND

The employees of the Institute are covered by a Faithful Performance Duty Bond administered by the Commonwealth of Virginia's Department of General Services, Division of Risk Management with liability limits of $500,000 for each occurrence. Information relating to the Commonwealth's self-insurance plan is available at the statewide level in the Commonwealth's CAFR.

13. CONTINGENCIES

The Institute has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the Institute.

In addition, the Institute is required to comply with various federal regulations issued by the Office of Management and Budget. Failure to comply with certain systems requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. As of June 30, 1999, the Institute estimates that no material liabilities will result from such audits or questions.

14. LITIGATION

In January 1990, the United States Department of Justice filed suit against the Commonwealth of Virginia, the Institute and others in the United States District Court for the Western District of Virginia to challenge the Institute's, then existing, males only admission policy. On June 26, 1996, the United States Supreme Court held that the Institute's policy violates the "equal protection clause" of the United States Constitution, Fourteenth Amendment. The suit was subsequently remanded to the District Court, where it remains open in its "remediation" phase. Additional appropriations to the Institute by the General Assembly in the sum of $5.1 million have been applied to meet the obligation to assimilate qualified women at the Institute. While the additional appropriated sums filled the then immediate remediation needs, there remains the possibility of need for further additional sums specifically to meet the remedial obligation.

SUPPLEMENTARY INFORMATION

VIRGINIA MILITARY INSTITUTE
SCHEDULE OF AUXILIARY ENTERPRISES REVENUES AND EXPENDITURES
For the Year Ended June 30, 1999

	Food Services	Residential Facilities	Laundry	Student Health
Revenues:				
Unrestricted:				
Student fees	$ 3,912,600	$ 1,633,968	$ 251,063	$ 166,093
Sales and services	90,627	301,715	5,128	-
Interest	-	-	-	-
Private gifts	-	-	-	-
Income from securities lending transactions	-	-	-	-
Total unrestricted revenues	4,003,227	1,935,683	256,191	166,093
Restricted:				
Federal funds - College workstudy	-	-	-	359
Total gross revenue	4,003,227	1,935,683	256,191	166,452
Less: Cost of sales	-	-	-	-
Net revenues	4,003,227	1,935,683	256,191	166,452
Expenses of operation:				
Personal services	-	323,140	132,249	109,558
Supplies and materials	7,316	79,049	5,077	5,318
Equipment	31,279	82,509	10	2,476
Contractual services	2,822,584	549,234	7,050	4,478
Continuous charges	485,849	1,065,290	23,215	11,498
Expenses for securities lending transactions	-	-	-	-
Total expenses of operation	3,347,028	2,099,222	167,601	133,328
Excess (deficiency) of revenues over (under) expenses of operation before transfers	656,199	(163,539)	88,590	33,124
Transfers:				
Nonmandatory transfers	-	-	-	-
Net increase (decrease) for the year	$ 656,199	$ (163,539)	$ 88,590	$ 33,124
Fund balance (deficit) at beginning of year				
Fund balance at end of year				

(1) Other column represents amounts not specificlly identifiable to a particular auxiliary.

Stores and Shops	Student Union	Parking	Cameron Hall	Athletics	Other (1)	Total
$ 103,006	$ 763,581	$ -	$ 212,444	$ 1,388,040	$ -	$ 8,430,795
54,437	680	4,234	-	408,044	-	864,865
-	-	-	-	-	33,683	33,683
-	-	-	-	500	-	500
-	-	-	-	-	3,106	3,106
157,443	764,261	4,234	212,444	1,796,584	36,789	9,332,949
-	3,587	-	-	897	-	4,843
157,443	767,848	4,234	212,444	1,797,481	36,789	9,337,792
59,104	-	-	-	-	-	59,104
98,339	767,848	4,234	212,444	1,797,481	36,789	9,278,688
371	384,507	-	63,821	2,127,577	-	3,141,223
50	52,696	-	5,822	38,155	-	193,483
577	69,129	-	908	149,080	-	335,968
81,460	168,937	-	22,282	559,244	-	4,215,269
8,489	250,654	-	95,826	506,229	-	2,447,050
-	-	-	-	-	2,951	2,951
90,947	925,923	-	188,659	3,380,285	2,951	10,335,944
7,392	(158,075)	4,234	23,785	(1,582,804)	33,838	(1,057,256)
-	-	-	-	1,857,679	9,830	1,867,509
$ 7,392	$ (158,075)	$ 4,234	$ 23,785	$ 274,875	$ 43,668	810,253
						(570,410)
						$ 239,843

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VIRGINIA MILITARY INSTITUTE
Lexington, Virginia